

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 1999-002-E - ORDER NO. 1999-298
APRIL 30, 1999

IN RE: Annual Review of Base Rates for Fuel Costs)
 of South Carolina Electric & Gas Company.) ORDER APPROVING *me*
) BASE RATES FOR
) FUEL COSTS

On April 21, 1999, the Public Service Commission of South Carolina ("the Commission") held a public hearing on the issue of the recovery of the costs of fuel used in the sale of electricity by South Carolina Electric & Gas Company ("SCE&G" or "the Company") to provide service to its South Carolina retail electric customers. The procedure followed by the Commission is set forth in S.C. Code Ann. §58-27-865 (Supp. 1998). The review of this case is from March 1998 through April 1999.

At the public hearing, Patricia Smith, Esquire, and Catherine D. Taylor, Esquire, represented SCE&G; Hana Pokorna-Williamson, Esquire, represented the Intervenor, the Consumer Advocate for the State of South Carolina ("the Consumer Advocate"); and F. David Butler, General Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of John W. Flitter, David A. Lavigne, Gene G. Soult, and Thomas W. Yarborough on behalf of SCE&G; the testimony of Jacqueline R. Cherry and A.R. Watts on behalf of the Commission Staff; and nine (9) hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from March 1998 through February 1999, SCE&G's total fuel costs for its electric operations amounted to \$210,607,065. Hearing Exhibit No. 8, Accounting Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for SCE&G's fossil, nuclear, and hydroelectric plants for March 1998 through February 1999. The fossil generation ranged from a high of 76% in July to a low of 62% in April. The nuclear generation ranged from a high of 32% in November to a low of 20% in July and August. The percentage of generation by hydro ranged from a high of 7% in April and May, 1998 to a low of 3% in January, 1999. Hearing Exhibit No. 9, Utilities Department Exhibit No. 3.

3. During the March 1998 through February 1999 period, coal suppliers delivered 6,337,772 tons of coal. The Commission Staff's audit of SCE&G's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from \$37.76 per ton in October 1998 to \$39.10 per ton in December 1998. Hearing Exhibit No. 8, Accounting Exhibits B and C.

4. Staff collected and reviewed certain generation statistics of SCE&G's major plants for the twelve months ending February 28, 1998. Hearing Exhibit No. 9, Utilities Department Exhibit 4. The nuclear fueled Summer Plant had the lowest average fuel cost at 0.48 cents per kilowatt-hour. The highest amount of generation was 5,532,580 megawatt-hours produced at the Summer Plant.

5. The Commission Staff conducted an extensive review and audit of SCE&G's fuel purchasing practices and procedures for the subject period. The Staff's accounting witness, Jacqueline R. Cherry, testified that SCE&G's fuel costs were supported by the Company's books and records. Testimony of Cherry; Hearing Exhibit No. 8, Accounting Department Exhibits.

6. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected cost of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. §58-27-865 (Supp. 1998) establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

7. The record of this proceeding indicates that the comparison of SCE&G's fuel revenues and expenses for the period March 1998 through February 1999 produces an under-recovery of \$1,303,094. Staff added the projected over-recovery of \$744,600 for the month of March 1999, the projected under-recovery of \$2,747,920 for the month of April 1999, to arrive at a cumulative under-recovery of \$3,306,414 as of April 1999. Testimony of Cherry at 4.

8. SCE&G's projected average fuel expense for the period of May 1999 through April 2000 is 1.337 cents per kilowatt-hour. Yarborough Testimony, p. 5.

9. Company witness Yarborough proposed that the Commission approve a change in the fuel factor to 1.337 cents per kilowatt-hour for the next twelve-month period. Yarborough Testimony, p. 6.

10. Exhibit No. 10 of the Utilities Department Exhibits reveals that applying the Company recommended fuel factor of 1.337 cents per kilowatt-hour would produce an estimated under-recovery of \$70,464 for the next twelve month period. Hearing Exhibit No. 9. Utilities Department Exhibit 10.

11. The nuclear unit operated well during the period under review, with no outages. Staff determined that there were no Company actions which required SCE&G's customers to incur higher fuel costs. Therefore, no disallowances of any fuel costs during the review period were recommended. Staff also examined records and determined that SCE&G had achieved an approximate capacity factor of 99%. Watts Testimony, p. 2.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann., §58-27-865(B)(Supp. 1998), each electrical utility must submit to the Commission its estimates of fuel costs for the next twelve (12) months. Following an investigation of these estimates and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period." Id.

2. S.C. Code Ann., Section 58-27-865(G) (Supp. 1998) requires the Commission to allow electrical utilities to recover “all their prudently incurred fuel costs... in a manner that tends to assure public confidence and minimize abrupt changes in charges to consumers.”

3. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F) requires the Commission “to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its consumers.” “[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error.” Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

4. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility’s reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

5. Further, S.C. Code Ann. §58-27-865 (F)(Supp. 1997) provides that:

[T]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system ...if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling,

reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system. If the net capacity factor is below ninety-two and one-half percent after reflecting the above specified outage time, then the utility shall have the burden of demonstrating the reasonableness of its nuclear operations during the period under review.

6. After considering the directives of §58-27-865 (B) and (F) which require the Commission to place in effect a base fuel cost which allows the Company to recover its fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve month period, the Commission has determined that the appropriate base fuel factor for May 1999 through April 2000 is 1.337 cents per kilowatt-hour. The Commission finds that a 1.337 cents per kilowatt-hour fuel component will allow SCE&G to recover its projected fuel costs and, at the same time, prevent abrupt changes in charges to SCE&G's customers. Staff shall monitor the cumulative recovery account to assure a proper level of reasonableness.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period May 1999 through April 2000 is set at 1.337 cents per kilowatt-hour.

2. SCE&G shall file an original and ten (10) copies of the South Carolina Retail Tariffs within ten (10) days of receipt of this Order.

3. SCE&G shall comply with the notice requirements set forth in S.C. Code Ann., §58-27-865 (B) (Supp. 1997).

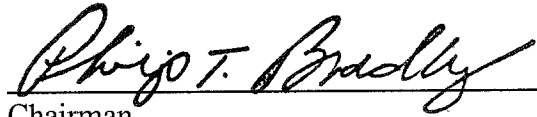
4. SCE&G shall continue to file the monthly reports as previously required.

5. SCE&G shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit. Staff shall monitor the cumulative recovery account.

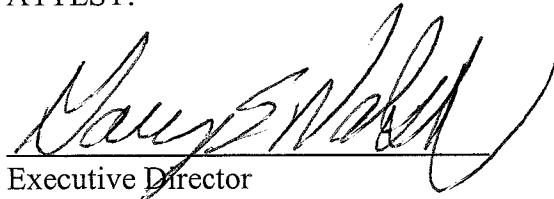
6. SCE&G shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

7. This Order shall remain in full force and effect until further of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)